

Jack Scott, Chair
 Bob Margett
 John Vasconcellos

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I. Overview

The 2003-04 Governor's budget proposes nearly \$53.0 billion for K-12 education, which reflects a decrease of \$497 million (0.9 percent) below the proposed 2002-03 revised budget. The Department of Finance estimates that average per-pupil funding from all sources (state, local, and federal) totals \$8,899 in 2003-04, a decrease of \$173 below the \$9,072 per-pupil in 2002-03.

Table 1
Summary of Expenditures
(dollars in millions)

	2002-03 Revised	2003-04 Proposed	\$ Change	% Change
General Fund	\$28,286	\$27,390	-\$896	-3.2
Lottery Fund	800	800	0	0.0
Other State Funds	113	80	-34	-29.7
Local Property Taxes	13,140	13,775	635	4.8
Local Miscellaneous	3,716	3,716	0	0.0
Local Debt Service	828	828	0	0.0
Federal Funds	6,599	6,397	-202	-3.1
Total	\$53,481	\$52,985	-\$497	-0.9

As indicated by Table 1, the \$53.0 billion for K-12 education includes \$27.4 billion from the state General Fund, \$13.8 billion in local property taxes, \$6.4 billion in federal funds, \$800 million in state lottery funds and \$80 million in other state funding.

The state General Fund provides 53 percent of school funding, while property taxes and other local revenues provide 35 percent and federal funds provide 12 percent. The state lottery contributes approximately 1.51 percent of this total.

As proposed, the budget General Fund decreases by \$896 million (3.2 percent) and local property taxes increase by \$635 million (4.8 percent). The budget also reflects a reduction of \$202 million (3.1 percent) in federal funds.

II. Proposition 98 Update

Proposition 98 Funding

Total Proposition 98 funding for K-12 education in 2003-04 is proposed at \$44.1 billion, an increase of \$182 million (1.6 percent) over the revised 2002-03 budget.

Table 2

Proposition 98 Summary
(dollars in millions)

	2001-02	2002-03 Revised	2003-04 Proposed	\$ Change	% Change
<i>General Fund</i>					
K-12 Education	\$38,363	\$39,297	\$39,939	643	1.6
Community Colleges	4,429	4,505	4,063	-442	-9.8
Calif. Youth Authority	41	38	37	-.326	-1.1
State Schools	36	38	38	.133	.4
Dept. of Develop. Services	10	12	11	-.126	-.9
Dept. of Mental Health	18	18	3	-14.5	-81.0
Indian Education Centers*	4	4	0	-4	-100.0
Loan Repayment	350	0	0		
Total, General Fund	\$29,682	\$28,898	\$28,225	-672	-2.4
Local Revenue	\$13,570	\$15,013	\$15,868	854	5.7
Total, State and Local Funds	\$43,252	\$43,911	\$44,093	182	.4
Proposition 98 K-12 ADA	5,809,083	5,895,275	5,954,154	58,879	1.0
K-12 funding per ADA			\$6,708		
(actual)	\$6,455	\$6,536		\$172	2.7

* Included in the Governor's Categorical Block Grant proposal in 2003-04.

As indicated in Table 2, of the total \$44.1 billion in Proposition 98 spending proposed for 2003-04, \$39.9 billion is attributable to K-12 and \$4.1 billion is for Community Colleges. The K-12 share of the Proposition 98 minimum funding level increases by \$643 million; whereas Community Colleges funding decreases by \$442 million in the budget year.

Funding from the formula established in Proposition 98 also supports direct educational services provided by other departments and agencies such the California Youth Authority and the state's Schools for the Deaf and Blind.

The 2003-04 budget proposes to provide K-12 education funding that will exceed the Proposition 98 minimum guarantee by an estimated \$104 million. In making this estimate, the Department of Finance uses Test 3, as adjusted to reflect the reduction of Child Care funds. The Governor proposes to shift Child Care programs out from under Proposition 98 as a part of a local government realignment proposal in 2003-04.

The number of students in K-12 schools, as measured by unduplicated average daily attendance (ADA), is estimated to increase by 58,879 students in the budget year, an increase of 1.00 percent over the current year. Average per-pupil Proposition 98 funding is estimated to be \$6,708 in 2003-04, an increase of \$172 over the \$6,536 per pupil funding in 2002-03.

Calculation of the Minimum Guarantee

Proposition 98, a constitutional amendment passed by the voters in 1988 and amended by Proposition 111, established a minimum funding level for K-12 schools and Community Colleges.

Proposition 98 funding is generally calculated as the greater of:

- Test 1 – a specified percent (approximately 34.5 percent) of state General Fund revenues.
- Tests 2 and 3 – The amount provided in the prior-year adjusted for K-12 ADA growth and an inflation factor. For “Test 2,” this inflation factor is the percentage change in per-capita personal income. For “Test 3” the inflation factor is equal to the annual percentage change in per-capita state General Fund revenues plus 0.5 percent--used only when it calculates a guarantee that is less than that determined by “Test 2.”

Note: Proposition 98 also includes a provision allowing the state to suspend the minimum funding level for one year through urgency legislation other than the Budget Bill.

The Governor’s budget is based on the assumption that 2002-03 is a “Test 3” year and it fully funds the Proposition 98 minimum according to the Administration’s estimates of the factors that determine that minimum. By contrast, the 2002-03 fiscal year is a “Test 2” year. (For additional detail on Proposition 98 calculations, please see Attachment A.)

Budget Issues/Actions:

1. LAO Proposition 98 Estimate. The Legislative Analyst's Office estimates that the Proposition 98 minimum guarantee for K-14 education is \$373 million higher than the level assumed by the Governor's budget. (The LAO also estimates that the minimum guarantee is \$93 million lower in 2002-03.)

The LAO's estimate of a higher minimum guarantee in the budget year is based upon three factors: (1) higher General Fund revenues -- \$1.5 billion above the Governor's budget; (2) higher per capita personal income; and (3) slightly lower state population levels. The LAO also assumes that Proposition 98 will be under Test 2 in the budget year; whereas the Governor's budget assumes a Test 3 scenario.

The LAO recommends that if the minimum guarantee is higher than the level assumed in the Governor's budget that the Legislature consider two proposals for additional expenditures. These include: (1) paying off outstanding mandate claims costs (estimated at \$871 in the budget year) and (2) providing up to \$100 million for additional community college growth.

2. Suspension of AB 2781 Requirement to Fully Restore the Maintenance Factor. The maintenance factor is currently estimated at \$3.5 billion. AB 2781, the original 2002-03 budget trailer bill, would require restoration of the maintenance requirement in the budget year, regardless of what the Proposition 98 calculation would otherwise require. Thus under AB 2781, the state would have to restore these funds -- estimated at \$3.5 billion -- in one year in 2003-04. This requirement was linked to the deferral of \$1.1 billion in categorical program payments from 2001-02 and 2002-03. On top of the requirement to fully restore the maintenance factor, AB 2781 requires the state to overappropriate by an additional \$78 million as an "interest" expense related to the deferral.

The budget assumes suspension of the requirements to restore the maintenance factor under AB 2781. The Governor proposes suspending this requirement and paying for these restorations over time, as provided under the Constitution (Proposition 98). In addition, the Governor proposes to delay the "overappropriation" of \$78 million until the maintenance factor is fully restored. The Department of Finance has drafted trailer bill language to accomplish this.

The LAO supports the elimination of the maintenance requirement, beyond what would be required by Proposition 98. The LAO recommends that the Legislature adopt trailer bill language proposed by the Department of Finance to delay the restoration of the maintenance factor. They recommend eliminating the commitment to overappropriate the guarantee by \$78 million.

3. K-12 and Community College Split. The Governor proposes a Proposition 98 “split” between K-12 schools and Community Colleges for 2003-04 of 90.8 percent for K-12 and 9.2 percent for Community Colleges.

For more than a decade, current law has required a Proposition 98 funding split between K-12 and Community Colleges of approximately 89 percent versus 11 percent. This split is based upon the percentage of Proposition 98 funding received by K-12 schools and Community Colleges in 1989-90. This statutory “split” has been suspended by the Legislature for more than ten years to reflect actual spending percentages.

The LAO recommends that the Legislature annually adjust the funding share to reflect its budget priorities relative to current circumstances.

III. Revenue Limits

School district revenue limits provide general purpose revenues for school districts and county offices of education. In contrast to categorical funds, which provide funds for specific purposes, revenue limit funding is viewed as discretionary funding for school districts.

Revenue limits were established in 1972 as a part of the state’s response to the *Serrano v. Priest* State Supreme Court decision of 1971. Revenue limits were calculated to be equal to the per-student amount of general purpose state aid and local property taxes that a district received in 1972-73.

The budget fully funds statutory enrollment growth for apportionments to school districts, county offices of education and special education at a rate of 1.0 percent. The budget provides \$358.7 million for apportionment growth, including \$299.2 million for school districts, \$22.3 million for county offices of education and \$37.2 million for special education. The budget does not provide growth for any other categorical programs, except special education.

Budget Actions/Issues:

1. Equalization. The budget proposes \$250 million for revenue limit equalization in 2003-04. This amount includes \$203 million provided pursuant to AB 2781 (Chapter 1167; Statutes of 2002) and an additional \$47 million set aside for pending legislation.

In the 1971 *Serrano v. Priest* state Supreme Court decision, the court specified a range (currently about \$335.00) to measure equality in school funding. Approximately 98 percent of the state's pupils are funded within that range which meets the court's standards.

In the years following the *Serrano* decision, the Legislature has enacted several statutes designed to equalize revenue limits among the state's school districts.

The passage of SB 727 (Chapter 854, Statutes 1997) by both eliminating excused absences from the revenue limit calculation—beginning with the 1998-99 school year—and increasing revenue limits to offset the effect of lower attendance, also significantly changed revenue limit levels. To some extent SB 727 also increased the variation in revenue limits and changed which districts were above and below revenue limit averages.

The LAO has advised the Legislature in recent years that it will take a very long time to reach equalization targets. Specifically, the LAO has calculated it would take roughly 12-45 years to bring at least 95 percent of pupils to the same revenue limit depending on the “steepness” of the scale. As a result, the LAO has recognized that supplemental funds would be required to achieve a given equalization target in a short period of time.

While equalization funding was not included in the 2002-03 budget, AB 2781 included \$406 million for equalization in 2003-04. AB 2781 distributed funds evenly on a pre-SB 727 and post-SB 727 basis. The Governor vetoed \$203 million (half) of these funds provided for pre-SB 727 equalization, leaving \$203 million for equalization. The \$250 million for equalization proposed by the Governor in 2003-04 would be distributed according to a post-SB 727 formula.

The LAO recommends that the Legislature not fund the \$250 million for revenue limit equalization proposed by the Governor in 2003-04, given the state's fiscal situation and the flexibility offered by the proposed categorical block grant. In addition, the LAO recommends that the Legislature delay revenue limit

equalization until a year when Proposition 98 can fund growth, COLAs, and pay off deferral payments.

2. Basic Aid Funds. The Governor's budget proposes a reduction of \$17.8 million in 2003-04 to eliminate Basic Aid funding (\$120/ADA) to high property value districts that receive more property tax revenue than is needed to fully fund their revenue limits. The Governor proposes to meet the state's constitutional obligation to provide Basic Aid through the provision of categorical funds to these districts.

For most of California's nearly 1,000 school districts, revenue limit income is derived from both local property taxes and state funds. For 82 California school districts local property taxes nearly equal or exceed the revenue limit amount, so they require little or no revenue limit funding from the state. However, because the State Constitution guarantees some "basic aid" funding for all school districts, these school districts receive \$120 per student (or minimum \$2,400 per district) from the state.

There are currently 82 school districts that receive basic aid funding from the state. The number of these districts -- known as basic aid districts -- can fluctuate each year, depending on their level of property taxes and the number of students enrolled in their district.

Of these 82 basic aid districts, 60 districts receive more local property taxes than is needed to fund their revenue limits. Therefore, these 60 districts do not receive revenue limit funds from the state, and instead receive state basic aid funds at the \$120 per student level.

The remaining 22 districts receive slightly less in property taxes than necessary to fully fund their revenue limits. These districts receive part of their \$120 per student funding in the form of basic aid and part in revenue limit funds from the state.

Basic aid funding is provided in lieu of revenue limits to comply with the constitutional requirements that all school districts receive some general purpose funding from the state. Basic aid districts also receive categorical program funds from the state. These categorical funds are not included in the calculations for determining these district's basic aid funding.

The Governor's proposal would utilize categorical funds to satisfy the state's constitutional requirement to provide \$120 per student in basic aid. In so doing, the Governor's proposal defines state basic aid to include state categorical funds. The

Governor would deem categorical funds received by basic aid districts as satisfying the \$120 per student obligation. According to the Department of Finance, all basic aid districts receive enough categorical funding to satisfy the \$120 per student.

By counting other state categorical funds as basic aid, the state can eliminate separate basic aid payments and generate a reduction of \$17.8 million in 2003-04.

The Governor proposed a reduction of basic aid funding of \$15.3 million as a part of the mid-year reductions for 2002-03. The Governor estimated that this reduction equated to a 2.15 percent reduction in general purpose funding for basic aid districts, intended to match the Governor's 2.15 percent across-the-board reductions for revenue limits proposed in the current year. The Legislature rejected both the Governor's basic aid reduction proposal and the across-the-board reduction proposals as a part of the mid-year reductions.

The Governor's proposal to eliminate basic aid funding in the budget year would reduce the state General Fund by \$17.8 million. The loss of these funds would reduce general purpose funding to basic aid districts by an estimated 2.5 percent.

The LAO recommends that the Legislature approve the Governor's proposal to eliminate basic aid payments entirely in 2003-04 for a savings of \$17.8 million. The LAO feels that basic aid funds exacerbate wealth-related disparities among districts and if eliminated would help equalize school district revenue limits and provide savings to the state.

3. Basic Aid Districts – Excess Property Taxes. In addition to the elimination of basic aid funding, the Governor's Budget proposes \$126.2 million in General Fund reductions from the recapture of excess property taxes from 60 basic aid school districts whose property tax revenues exceed their revenue limits. These excess taxes would be recaptured from these basic aid districts and then redistributed to offset revenue limit costs for K-12 schools and community colleges within the same county.

Under the Governor's proposal the savings from the recapture and redistribution of excess property taxes would result in a reduction of General Fund costs under Proposition 98 of \$126.2 million. Redistributed funds would not increase funding to other K-12 schools and community colleges, but would offset (reduce) state General Fund costs for state aid to these schools and colleges.

School districts are currently allowed to keep excess property taxes. These retained taxes are not counted under Proposition 98. The level of excess taxes collected by the 60 basic aid districts ranges significantly. According to data developed by LAO at the request of Subcommittee staff, excess property taxes ranged from \$61 per student to \$13,720 per student in 2001-02. The average level of excess property taxes for districts was \$1,727.

According to the Department of Finance (DOF), total excess taxes are projected at \$160.1 million in 2003-04, or 4.4 percent above the \$153.3 million projected in 2002-03. However, actual figures from DOF indicate that excess taxes have been increasing at a higher rate in recent years. Between 2000-01 and 2001-02 – the latest actual data available – excess property taxes grew from \$94.7 million to \$147.8 million, an increase of 56.1 percent.

The LAO predicts that actual excess taxes will be higher than projected by DOF in 2002-03 and 2003-04. Clearly, excess taxes have increased significantly recently. The LAO cites escalating property tax values and high turnover rates for property as the reason behind this increase.

According to the LAO, excess property taxes contribute to inequities in general purpose funding among school districts in the state – a circumstance that gives excess tax districts clear funding advantages for serving their students. According to LAO data requested by the Subcommittee, general purpose funding for basic aid districts with excess taxes ranges from \$4,539 to \$19,763 per student. The average is \$6,526 per student, as compared to a statewide average of \$4,525.

However, the LAO indicates that the Governor's proposal – which reduces excess taxes for basic aid districts by 78 percent – would cause "severe disruption" to districts that rely on large tax revenues. For the average basic aid district, the loss of excess taxes would result in a 20 percent reduction in general purpose funding. Reductions would reach as high as 50 percent for a few districts.

Accordingly, the LAO does not recommend approval of the Governor's budget to capture \$126.2 million in excess property taxes from basic aid districts.

The LAO does support some reduction of excess property taxes for these 60 basic aid districts. Specifically, the LAO recommends that the Legislature place a cap on the amount of excess property taxes districts can keep as general purpose funds.

The LAO further recommends that taxes above this level be redistributed to other K-12 schools and community colleges in the same county, as proposed by the Governor.

The LAO suggests the cap on excess property taxes be set at levels received in 2001-02. This LAO alternative would result in savings of \$65 million in 2003-04. The LAO does not believe a reduction of this magnitude would harm districts. According to the LAO, the additional funds resulting from the 56.1 percent increase in excess property taxes in 2001-02 may not have been fully scheduled in district budgets and could give them a cushion to absorb reductions resulting from the cap.

5. Public Employees Retirement System (PERS). The Governor's Budget proposes to fully fund the 9.5 percent increase in the PERS rate, providing a \$381.7 million increase in funds for school districts and county offices of education.

6. PERS Offset. The budget does not provide funding to buyout the PERS offset and thereby proposes elimination of \$35 million appropriated pursuant to Chapter 2, Third Extraordinary Session, Statutes of 2002.

The 2001-02 Budget Act, as enacted in July 2001, provided \$35 million in discretionary funding for school districts in the form of a PERS Revenue Limit Offset pursuant to Chapter 794, Statutes of 2001 (SB 6, O'Connell). The "PERS offset" statute "passes through" to the state all savings or costs that otherwise would accrue to K-12 agencies from annual changes in the employer rate.

It was the Legislature's intent that the PERS offset program (and the equalization program) be "ongoing," (i.e., continuously appropriated a part of a district's base revenue limit). However, Chapter 2, Statutes of 2002, Third Extraordinary Session (SBX3 5, Peace), which enacted the mid-year budget adjustment proposal for education for 2001-02, altered, at least temporarily, that intent. While preserving funding for both the PERS offset appropriations, SBX3 5 "suspended," until the 2003-04 fiscal year, the statute assuring continued funding.

The Governor vetoed the \$36 million augmentation the Legislature provided for the PERS offset in the 2002-03 Budget Act.

The LAO recommends delaying additional funding for the PERS offset until the state is able to fully fund growth, COLA and pay off its deferrals.

IV. Cost-of-Living Adjustments (COLA)

Budget Issues/Actions:

1. Cost of Living Adjustments (COLAs). The Governor's Budget does not fund cost-of-living adjustments (COLAs) for any education programs -- revenue limits or categorical programs -- in 2003-04. The Governor proposes savings of \$800.5 million assuming a COLA of 1.96 percent.

The Governor's Budget estimate for a budget year COLA changed at the time the budget was released. The Governor now estimates that the statutory COLA for the budget year is 1.55 percent.

According to the LAO, suspending the COLA in the budget year results in savings of \$635 million assuming a 1.55 percent COLA. Total savings in the budget year include \$441 million for revenue limits to school districts and county offices of education and \$194 million for categorical programs subject to the statutory COLA.

The 2002-03 budget provides a 2.0 percent COLA for revenue limits and categorical programs; the Legislature did not revise the COLA as a part of the mid-year reductions contained in SBX1 18.

The 1.55 percent COLA now estimated for 2003-04 is subject to adjustment. The Department of Finance will report the official percentage change as part of the Governor's "May Revise". The annual inflation percentage for K-12 revenue limits is established by statute. It is calculated as the annual percentage change in the "Implicit Price Deflator" for *State and Local Government Purchases of Goods and Services for the United States*, as published by the United States Department of Commerce each May.

2. Deficit Factor. The Governor's budget does not provide a "deficit factor" for revenue limit COLA reductions that would allow funds to be claimed and restored when economic conditions improved.

During the recession years of the early 1990's, the statutory COLA for revenue limits was not fully funded. The state created a second set of revenue limits, called "deficited" revenue limits. Deficited revenue limits reflect the amount that the state actually provides to school districts and county offices of education for revenue limits. The state keeps track of the difference between base revenue limits and deficited revenue limits – by acknowledging through statute a revenue limit deficit factor. The deficit factor specifies the amount the state owes schools by a percentage that is approved as part of the annual budget process.

The Legislature has approved deficit reduction funding for revenue limits, in years when the statutory COLA has not been fully provided.

The LAO recommends that the Legislature not create a deficit factor for revenue limits if it does not fund the statutory COLA. The LAO believes that this position would give the Legislature more flexibility to spend funds in future years while still permitting the Legislature to restore COLA if it desired.

V. No Child Left Behind (Information Item)

1. Implementation Status

In January 2002, President Bush signed legislation re-authorizing the Elementary and Secondary Education Act (ESEA). The newly signed law –No Child Left Behind Act (NCLB) of 2001– makes sweeping changes to the previous Title I program under the ESEA law.

NCLB authorizes approximately \$21.8 billion in federal fiscal year (FFY) 2003 for federal elementary and secondary education programs targeted to economically disadvantaged students. Of this amount, California is slated to receive \$2.9 billion in funds to implement NCLB in 2003-04.

While NCLB authorizes new education programs and funds for states, it also places significant new assessment and accountability requirements on states in exchange. Most notably, states must develop an accountability plan to define student proficiency according to standards-aligned assessments, require all students to reach proficiency in English language arts and math in 12 years, and require all schools to make adequate yearly progress (AYP) for all students (including student subgroups) in reaching this proficiency goal. States are required to develop a

single-state accountability system in meeting the requirements of NCLB and establish interventions and sanctions for Title I schools that do not make AYP.

In addition, under the new law, all teachers in California must be highly qualified within four years. Effective this year, all newly hired teachers in Title I schools must meet the state's definition of highly qualified.

In implementing the new accountability provisions of NCLB, California has met many of the requirements of the act through our state's existing accountability system established under the Public Schools Accountability Act (PSAA). However, alignment of our state accountability system with the NCLB presents many challenges.

The State Board has responsibility for approving state plans under NCLB and has been very focused on this and other major requirements of NCLB in the last six months as it prepared our state's accountability plan for NCLB. The board approved a final plan and submitted it to the US Department of Education in January.

In May 2003, the board must also approve a definition of highly qualified teacher, another major requirement of NCLB. State Board staff has indicated recently that state's may have additional time – possibly until September 2003 -- to submit their official definitions to the US Department of Education.

Nearly one year ago, at their May 30, 2002, meeting, the board approved a definition of highly qualified teacher as a part of its first consolidated application for NCLB. While not required for another year, the approval and inclusion of this definition by the State Board attracted some criticism, most notably from U.S. Representative George Miller, who felt the definition of the highly qualified approved by the board undermined provisions of NCLB he had worked so hard to secure.

As a part of the consolidated application approved last May the State Board also approved the California Reading First Application – another action tied to implementation of NCLB that also attracted some criticism. California received \$133 million in funding for this new Title I program in 2003-03 to ensure that every student can read at or above grade level before the end of third grade.

The Reading First Plan approved by the State Board was developed by the governor, State Board and superintendent and adopted at their May 29, 2002. At

that meeting the board received criticism for not including educational stakeholders in development of the Reading First plan and about the lack of time group's had for reviewing the plan and providing input.

The Legislature passed AB 312 (Strom-Martin) in 2002 to create another role for the Legislature in implementation of NCLB. As enacted, AB 312 establishes a 15-member liaison team, including 10 members representing or appointed by the Legislature, to advise the Superintendent of Public Instruction and the State Board of Education on all appropriate matters related to the implementation of NCLB. The bill also requires the board to provide the same information about meeting agenda items on the internet as it provides for board members.

Budget Issues/Questions:

- *What is the status of our state's NCLB accountability plan submitted to the US Department of Education (USDE) in January? Are there some components of the plan that may not be approved?*
- *What are the costs associated with implementation of our NCLB accountability plan?*
- *How would we assess the level of federal funding available to states for implementation of NCLB? What is the federal commitment to funding implementation of NCLB?*
- *What are the costs to our state in assuring that all public school teachers in California are "highly qualified", as defined in NCLB?*
- *How has the State Board involved the new Legislative Liaison Committee established by AB 312? How has the board been utilizing the recommendations of the AB 312 Liaison Committee in developing a definition of "highly qualified teacher", which may be due to the US Department of Education as early as this May.*

2. Data Collection -- CSIS Expenditure Plan. Under NCLB, states must maintain a comprehensive data system as a part of their accountability systems. NCLB requires a range of performance indicators and will require a wide range of data to be collected at the student school and state levels.

While some of this data is currently available, new data systems will have to be developed and existing systems modified to capture all the data and meet the new reporting requirements. While California collects data about students, it does not collect student-level data that allows the state to track student level outcomes, such as graduation rates required by NCLB.

Senate Bill 1453 (Alpert), enacted in 2002, requires the CDE to contract with an entity to develop, host and maintain a longitudinal pupil achievement data system for the STAR, California English Language Development Test (CELDT), and the High School Exit Examination (HSEE).

The Department of Finance (DOF) recently notified the Legislature via a letter dated February 21, 2003, that they have partially approved an expenditure plan for the longitudinal data system required by SB 1453. The expenditure plan was submitted to DOF by the California Department of Education and the California Information Services (CSIS). Of the \$6.9 million in federal Title VI funds appropriated in the 2002-03 budget pursuant to SB 1453, the DOF has approved \$460,000 in the current year (to-date). DOF anticipates approving another \$1.1 million in 2003-04.

The LAO is concerned that the DOF is delaying the development of the longitudinal data system, which is needed to satisfy NCLB requirements under our state's agreements and plans with the US Department of Education. As a result, California may not be able to achieve compliance with NCLB. In particular, the LAO questions whether California will be able to provide student graduation data and other student outcome data, especially for English learners and migrant students, as required by NCLB,

The Subcommittee will consider several budget items related to data systems at the April 21st hearing on assessment and accountability.

Budget Issues/Questions:

- *How is California going to meet the data requirements of NCLB without a data reporting system that provides student level data? For example, how will California meet the graduation rates required by NCLB?*
- *How would you view our state's progress in implementing student level data in the short-term and long-term?*
- *What can the Department of Finance do to expedite the approval of the SB 1453 funds for development of the longitudinal data system without compromising proper review?*

VI. Federal Funds (Information Item)

The California Department of Education receives state grant funding from three major federal agencies – the Department of Education, the Department of Health and Human Services and the Department of Agriculture. Four federal programs – child nutrition (school meals), Title I (compensatory education), child development (child care) and special education -- provide most of the funding to K-12 schools in California. These four programs are among the largest federal grant programs to our state overall.

Table 3. Federal Funds – Agency/Program	FFY 2002	FFY 2003	Change
<i>US Dept. of Education:</i>			
Title I Compensatory Education & School Improvement -- NCLB	2,600,480,613	2,905,030,045	304,549,432
Special Education – IDEA	821,511,208	972,653,299	151,142,091
Vocational and Adult Education – Perkins & WIA,	220,163,657	220,962,820	799,163
Subtotal, USDE Funds	3,642,155,478	4,098,646,164	456,490,686
<i>US Dept of Agriculture:</i>			
School Nutrition – School Lunch, Breakfast, Summer Meal Programs	1,413,656,000	1,433,365,000	456,490,686
Subtotal, USDA Funds	1,413,656,000	1,433,365,000	19,709,000
<i>US Dept of Health & Human Services:</i>			
Child Care & Development – TANF & Child Care Development Block Grant	890,628,000	863,047,000	27,581,000
Subtotal, USHHS Funds	890,628,000	863,047,000	-27,581,000
Total, Federal Funds K-12 Education Funds to California	5,946,439,478	6,395,058,164	488,618,686

The Governor's Budget reflects \$5.9 billion in federal funds in 2003-04, a decrease of \$191 million, or 3.1 percent from 2002-03. The Governor's figures will be updated in the May Revise to more accurately reflect federal appropriations for FFY 2003, as passed by Congress and signed by President Bush last month.

According to new information released by the U.S. Department of Education February 28, 2003 (Table 3), California will receive a total of \$6.4 billion in federal education funds in 2003-04 (FFY 2003), an increase of \$449 million, or 7.0 percent from 2002-03. (See Attachment B for additional detail.)

Federal funds appropriated from U.S. Department will increase by \$456.5 million, or 11.1 percent in 2003-04, to California. This includes an increase of \$304.5 million (10.5 percent) for programs authorized under No Child Left Behind -- including Title I programs -- in 2003-04. In addition, special education funds authorized under the Individuals with Disabilities Education Act will increase by \$151.1 million (15.5 percent) in 2003-04.

The Subcommittee will consider budget items appropriating these federal funds at future budget hearings.

Attachment A

Proposition 98 Guarantee

Figure 3

Proposition 98 at a Glance

Funding "Tests"

Proposition 98 mandates that a minimum amount of funding be guaranteed for K-14 school agencies equal to the greater of:

- A specified percent of the state's General Fund revenues (Test 1).
- The amount provided in the prior year, adjusted for growth in students and inflation (Tests 2 and 3).

Test 1—Percent of General Fund Revenues

Approximately 34.5 percent of General Fund plus local property taxes.

Requires that K-12 schools and the California Community Colleges (CCC) receive at least the same share of state General Fund tax revenues as in 1986-87. This percentage was originally calculated to be slightly greater than 40 percent. In recognition of shifts in property taxes to K-14 schools from cities, counties, and special districts, the current rate is approximately 34.5 percent.

Test 2—Adjustments Based on Statewide Income

Prior-year funding adjusted by growth in per capita personal income.

Requires that K-12 schools and CCC receive at least the same amount of combined state aid and local tax dollars as was received in the prior year, adjusted for statewide growth in average daily attendance and inflation (annual change in per capita personal income).

Test 3—Adjustment Based on Available Revenues

Prior-year funding adjusted by growth in per capita General Fund.

Same as Test 2 except the inflation factor is equal to the annual change in per capita state General Fund revenues plus 0.5 percent. Test 3 is used only when it calculates a guarantee amount less than the Test 2 amount.

- **Test 3B Supplement.** Statute requires that, in Test 3 years, K-14 Proposition 98 funding per student grow at least as fast as per capita General Fund spending on non-Proposition 98 programs. This can require that a supplemental amount be added to the minimum guarantee.

Other Major Funding Provisions

Suspension

Proposition 98 also includes a provision allowing the state to suspend the minimum funding level for one year through urgency legislation other than the budget bill.

Restoration ("Maintenance Factor")

Following a suspension or Test 3 year, the Legislature must increase funding over time until the base is fully restored. The overall dollar amount that needs to be restored is referred to as the maintenance factor.

Source: Office of the Legislative Analyst, *Analysis of the Budget Bill, 2003-04*.

Attachment B
Federal Education Funding to California
2003-04 Funds (FFY 2003)

<http://www.ed.gov/offices/OUS/Budget04/04StateTables/index.html>

DEPARTMENT OF EDUCATION
Funds for State Formula-Allocated and Selected Student Aid Programs for
California

	2002 Actual	2003 Estimate	2004 Estimate	Change from 2003 Estimate
ESEA Title I Grants to Local Educational Agencies	1,448,833,975	1,650,269,554	1,769,987,769	119,718,215
Reading First State Grants	132,975,120	146,607,788	154,318,058	7,710,270
Even Start	31,210,336	31,114,795	22,361,698	-8,753,097
State Agency Program--Migrant	127,545,988	127,352,026	127,545,988	193,962
State Agency Program--Neglected and Delinquent	3,888,998	3,945,150	3,888,998	-56,152
Comprehensive School Reform (Title I)	30,996,645	31,096,447	0	-31,096,447
Subtotal, Education for the Disadvantaged	1,775,451,062	1,990,385,760	2,078,102,511	87,716,751
Impact Aid Basic Support Payments	54,945,425	64,027,126	54,443,669	-9,583,457
Impact Aid Payments for Children with Disabilities	3,752,582	4,246,947	3,697,327	-549,620
Impact Aid Construction	808,762	1,070,398	1,077,401	7,003
Impact Aid Payments for Federal Property	15,341,176	22,653,970	20,902,003	-1,751,967
Subtotal, Impact Aid	74,847,945	91,998,441	80,120,400	-11,878,041
Improving Teacher Quality State Grants	332,170,724	343,146,923	332,170,724	-10,976,199
21st Century Community Learning Centers	41,494,874	76,288,342	81,668,588	5,380,246
Educational Technology State Grants	85,123,372	89,303,765	94,262,499	4,958,734
State Grants for Innovative Programs	46,714,168	46,410,525	46,714,168	303,643
State Assessments	29,379,201	30,621,018	31,862,834	1,241,816
Education for Homeless Children and Youth	6,975,128	7,667,371	7,086,073	-581,298
Rural and Low-Income Schools Program	2,719,404	2,805,640	0	-2,805,640
Small, Rural School Achievement Program	4,269,841	4,394,734	0	-4,394,734
Indian Education--Grants to Local Educational Agencies	6,551,544	6,508,988	6,551,544	42,556
Fund for the Improvement of Education--Comprehensive				
School Reform	9,219,549	9,159,623	0	-9,159,623
Safe and Drug-Free Schools and Communities State Grants	61,558,718	60,756,063	50,849,009	-9,907,054
State Grants for Community Service for Expelled or				
Suspended Students	6,724,307	6,652,068	0	-6,652,068
Language Acquisition State Grants	117,280,776	138,930,784	154,402,224	15,471,440
Subtotal, All of the Above Programs Comprising the				
<i>No Child Left Behind Act of 2001</i>	2,600,480,613	2,905,030,045	2,963,790,574	58,760,529
Special Education--Grants to States	781,662,507	933,124,077	1,015,901,895	82,777,818
Special Education--Preschool Grants	39,848,701	39,529,222	39,766,591	237,369
Grants for infants and Families	49,954,044	52,016,926	53,559,454	1,542,528
Subtotal, Special Education	871,465,252	1,024,670,225	1,109,227,940	84,557,715
Vocational Rehabilitation State Grants	243,137,267	247,893,144	252,173,276	4,280,132
Client Assistance State Grants	1,207,727	1,232,680	1,215,099	-17,581
Protection and Advocacy of Individual Rights	1,514,547	1,693,359	1,801,732	108,373
Supported Employment State Grants	4,125,408	4,121,064	0	-4,121,064
Independent Living State Grants	1,980,087	1,978,147	2,000,031	21,884
Services for Older Blind Individuals	2,290,298	2,622,009	2,305,462	-316,547
Protection and Advocacy for Assistive Technology	50,000	455,130	0	-455,130
Subtotal, Rehabilitative Services and Disability Research	254,305,334	259,995,533	259,495,600	-499,933
Vocational Education State Grants	129,790,082	131,157,822	0	-131,157,822
Tech-Prep Education State Grants	12,177,613	12,094,529	0	-12,094,529
Secondary and Technical Education State Grants	0	0	104,023,667	104,023,667
Adult Basic and Literacy Education State Grants	0	0	77,490,942	77,490,942
Adult Education State Grants	56,712,395	56,334,940	0	-56,334,940
English Literacy and Civics Education State Grants	19,731,154	19,480,861	0	-19,480,861
State Grants for Incarcerated Youth Offenders	1,752,413	1,894,668	0	-1,894,668
Subtotal, Vocational and Adult Education	220,163,657	220,962,820	181,514,609	-39,448,211
Federal Pell Grants	1,416,700,000	1,394,200,000	1,366,300,000	-27,900,000
Federal Supplemental Educational Opportunity Grants	76,510,940	80,207,474	76,510,940	-3,696,534
Federal Work-Study	111,356,320	110,632,504	111,356,320	723,816
Federal Perkins Loans--Capital Contributions	11,298,174	11,224,736	0	-11,224,736
Leveraging Educational Assistance Partnership	10,298,903	10,231,960	0	-10,231,960
Federal Direct Student Loan Program	1,074,623,983	1,173,361,784	1,253,620,726	80,258,942
Federal Family Education Loan Program	2,569,415,282	2,832,590,377	3,048,968,808	216,378,431
Byrd Honors Scholarships	5,101,500	5,071,500	5,106,000	34,500
Total	9,221,719,958	10,028,178,958	10,375,891,517	347,712,559

NOTE: For fiscal year 2004, the President is proposing to replace the current vocational and adult education State grant programs with two new formula programs: Secondary and Technical Education State Grants, which is requested at \$1 billion; and Adult Basic and Literacy Education State Grants, which is requested at \$584.3 million. The amount showing for each proposed program is a preliminary estimate which may change after authorizing legislation is enacted.

